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Consumer Advocate Agrees to Settlement That Offers Energy Savings

SALT LAKE CITY, UT – Utah's utility consumer advocate, the Utah Committee of Consumer Services (Committee), approved a settlement yesterday in the Questar Gas Conservation Enabling Tariff (CET) Adjustment proceeding before the Utah Public Service Commission (Commission). If approved by the Commission, the settlement would implement a three-year pilot program to develop natural gas conservation measures and remove a structural impediment the Utility says is keeping it from proceeding with conservation measures.

Questar Gas' proposed CET would not only allow the Utility to recover in rates, as an operational expense, the costs the Utility expends to implement conservation measures that have been reviewed and approved in advance by the Commission, it would also allow the Utility to recover in rates lost revenue from reductions in demand stemming from conservation measures and other causes such as rising natural gas prices.

The Utility's 'annual revenue requirement' is fixed by Commission order at an amount calculated to cover its projected annual expenses and give it an opportunity to earn a profit – that is, a Commission-fixed fair return on its investment. A substantial portion of a utility's expenses, such as distribution mains, feeder lines, and meters, are 'fixed' costs. That is, they occur regardless of the volume of gas sales to customers. The Utility argues that by having to recover its fixed expenses through a customer 'volumetric charge,' it is put at risk if customer usage declines because of conservation measures. It argues its CET proposal would remove this structural impediment by giving it revenue assurance regardless whether the volume of gas used by customers during the year exceeds or falls below projections.

The Committee opposed the Utility's CET filing earlier because, while it may be appropriate to compensate the Utility for revenue loss the Utility might experience from conservation measures, it should not recover in rates other revenue losses. For

example, it should not recover in rates revenue losses that result from higher gas prices. Further, in the Committee's view, the utility's CET proposal for revenue assurance would represent a significant transfer of risk which customers should be compensated for taking and the Utility should earn less 'profit' for no longer having. Such rate adjustment considerations are normally the subject of a general rate case.

"The Committee approved this settlement –albeit by a narrow 4-2 margin," stated Committee Chairman Dee Jay Hammon, "because of the importance we attach to customer conservation and because a majority of Committee members were satisfied with the safeguards Committee staff was able to negotiate."

Committee Interim Director Reed Warnick stated, "Committee staff put safeguards in place in the settlement that moderate the risk exposure to customers for one year and allow the Committee during that one-year period to develop and lay before the Commission an alternative CET that removes the "structural impediment" but would have less downside for customers."

The settlement will make it possible for Questar Gas to implement customer conservation measures which should benefit customers this upcoming heating season. It further provides for a determination by the Commission approximately one year from now of how the CET should proceed during the remaining two years of the pilot program.

The public hearing before the Commission on the settlement is scheduled for Monday, September 25, 2006, in the Heber M. Wells Bldg.